



Cornell Law School

**BIRGITTA SIEGEL**  
*Adjunct Professor of Law*  
*Cornell Securities Law Clinic*  
138 Hughes Hall  
Ithaca, NY 14853  
Email: [bks57@cornell.edu](mailto:bks57@cornell.edu)

**Via Electronic Filing**

Vanessa A. Countryman  
Secretary  
Securities and Exchange Commission  
100 F Street NE  
Washington, DC 20549-1090

**Re:** [File Number S7-05-22](#) (Proposal to Shorten the Securities Transaction Settlement Cycle to T+1)

Dear Secretary Countryman:

The Cornell Securities Law Clinic (the “Clinic”) submits this comment supporting the rule proposal of the Securities and Exchange Commission (the “Commission”) to amend Rule 15c6-1<sup>1</sup> of the Securities Exchange Act of 1934 by shortening the securities transaction settlement cycle from two business days after the trade date (“T+2”) to one business day after the trade date (“T+1”).<sup>2</sup> The Clinic is a Cornell Law School curricular offering in which students provide representation to public investors and public education as to investment fraud in the “Southern Tier” region of New York. For more information, please see <http://securities.lawschool.cornell.edu/>.

The Clinic submits this letter for your consideration.

**I. ADOPTION OF THE PROPOSAL WOULD PROMOTE SUBSTANTIAL MARKET BENEFITS.**

Rule 15c6-1(a)(1) currently provides that, unless otherwise expressly agreed by the parties at the time of the transaction, a broker-dealer is generally prohibited from entering into a contract for the purchase or sale of a security that provides for payment of funds and

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<sup>1</sup> [17 CFR § 240.15c6-1](#). Proposed changes other than those to Rule 15c6-1 are beyond the scope of this comment.

<sup>2</sup> The Commission has noted it is “actively assessing” same-day settlement (*i.e.*, T+0) and beyond. [87 FR 10465](#). Though such an analysis is beyond the scope of this comment, for an in-depth analysis of the advantages and disadvantages of real-time settlement and an explanation of how emerging blockchain technologies can mitigate the drawbacks of such speedy settlement, see Luke Colle, *Reaching for the Moon: An Analysis of Real-Time Securities Clearing & Settlement in Light of Emerging Blockchain Technologies*, 16 VA. L. BUS. REV. (forthcoming spring 2022).



delivery of securities later than the second business day after the date of the contract.<sup>3</sup> The proposal would not affect the enumerated exclusions to this rule,<sup>4</sup> instead changing only the standard settlement date to T+1. This change would produce net market benefits and should be adopted.

First, the time required to settle transactions determines a significant portion of a market participant's risk exposure on any given securities transaction. This was well recognized even during the first initiative to shorten the standard settlement cycle after the October 1987 market break,<sup>5</sup> which prompted increased interest in a shortened transaction settlement cycle. For example, the Bachmann Report relied on the simple phrase "time equals risk" to illustrate that "less time between a transaction and its completion reduces risk."<sup>6</sup> The report noted that a "shorter settlement cycle will also uncover potential problems sooner, before they mushroom or begin to cascade throughout the industry."<sup>7</sup> These observations are as true today as they were when that report was written. For example, in early 2021, the fiasco involving GameStop, AMC, and other meme stocks was worsened by the two-day settlement cycle.<sup>8</sup> This two-day delay contributed to wide price swings and extreme volatility not based on much more than speculation, which put retail investors at particular risk.<sup>9</sup>

Assuming trading volume remains constant, shortening the time to settlement would decrease the total number of unsettled trades that exist at any given moment as well as the total market value of all unsettled trades.<sup>10</sup> This reduction in the number and total value of

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<sup>3</sup> [17 CFR § 240.15c6-1](#).

<sup>4</sup> [87 FR 10447](#).

<sup>5</sup> *Stock Market Crash of 1987*, FEDERAL RESERVE HISTORY (Nov. 23, 2013), <https://www.federalreservehistory.org/essays/stock-market-crash-of-1987> ("The first contemporary global financial crisis unfolded on October 19, 1987, a day known as 'Black Monday,' when the Dow Jones Industrial Average dropped 22.6 percent."). The SEC amended Rule 15c6-1 in 1993, shortening the T+5 requirement to T+3. Exchange Act Release No. 33023 (Oct. 6, 1993), 58 FR 52891 (Oct. 13, 1993) (T+3 Adopting Release).

<sup>6</sup> *Report of the Bachmann Task Force on Clearance and Settlement Reform in U.S. Securities Markets, Submitted to the Chairman of the U.S. Securities and Exchange Commission* at 27814 (May 1992) ("Bachmann Report"), <https://www.govinfo.gov/content/pkg/FR-1992-06-22/pdf/FR-1992-06-22.pdf>. See also Exchange Act Release No. 80295 (Mar. 22, 2017), [82 FR 15564, 15582](#) (Mar. 29, 2017) (T+2 Adopting Release) (a T+1 standard settlement cycle could produce greater reductions in "market, credit, and liquidity risk" for market participants than a T+2 settlement cycle).

<sup>7</sup> *Id.*

<sup>8</sup> Colle, *supra* note 2, at 7–9; Catherine Thorbecke, *GameStop Timeline: A Closer Look at the Saga That Upended Wall Street*, ABC NEWS (Feb. 13, 2021), <https://abcnews.go.com/business/gamestop-timeline-closer-saga-upended-wall-street/story?id=75617315>.

<sup>9</sup> See *Office Hours with Gary Gensler: What Does Market Plumbing Have to Do With Meme Stocks?*, SEC (Oct. 21, 2021), <https://www.sec.gov/news/sec-videos/office-hours-gary-gensler>; *Staff Report on Equity and Options Market Structure Conditions in Early 2021* at 14–17, SEC (Oct. 14, 2021), <https://www.sec.gov/files/staff-report-equity-options-market-struction-conditions-early-2021.pdf>.

<sup>10</sup> [87 FR 10448](#); see also SIFMA, et al., *Accelerating the U.S. Securities Settlement Cycle to T+1* (Dec. 1, 2021), <https://www.sifma.org/wp-content/uploads/2021/12/Accelerating-the-U.S.-Securities-Settlement-Cycle-to-T1-December-1-2021.pdf> ("T+1 settlement . . . significantly reduces the volume of securities and currency required to be moved across markets on any given trading day.") [hereinafter "SIFMA's T+1 Report"].

unsettled trades should correspond to a reduction in a market participant's overall exposure to risk arising from unsettled transactions.<sup>11</sup>

Second, shortening the current settlement cycle would improve capital and operational efficiencies. For example, adopting the proposal would allow optimization of margin calculations and help reduce margin requirements among customers, brokers, and clearinghouses.<sup>12</sup> And while there may be increased implementation costs associated with an industry-wide transition to T+1 (discussed more, *infra*, in Section II.), we can expect long-term cost savings for market participants and, by extension, costs borne by end investors given the benefits of moving to T+1 settlement.<sup>13</sup> According to simulations conducted by the Depository Trust & Clearing Corporation, by moving to T+1, “the volatility component of [National Securities Clearing Corporation’s] margin could potentially be reduced by 41%.”<sup>14</sup> Reducing the volatility component would benefit investors because clearing houses would likely have to post lower collateral to cover transaction risks, therefore avoiding situations such as the January 2021 restrictions placed by retail brokerages on certain stocks being caught in a trading frenzy (*e.g.*, GameStop).

Third, shortening the current settlement cycle would enable market participants to access the proceeds of their transactions sooner. If this proposal were adopted, buyers and sellers would have access to their proceeds an entire day earlier relative to the T+2 settlement cycle. If the public comments submitted to date are any indication, this is of paramount concern to the lay investor.<sup>15</sup>

Finally, as the Commission recognizes, there is “significant industry support” for “establish[Ing] a T+1 standard settlement cycle.”<sup>16</sup> It is beneficial that the industry and market participants are already eager to adopt a T+1 settlement cycle as this will help expedite the transition and overcome any obstacles arising during implementation.

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<sup>11</sup> Because the Clinic is particularly focused on providing legal aid to “main street” retail investors, we are particularly concerned with reducing risks for small investors, though the benefits of reducing risk are enjoyable by a broad array of market participants.

<sup>12</sup> SIFMA’s T+1 Report, *supra* note 10, at 9.

<sup>13</sup> *Id.*

<sup>14</sup> *Advancing Together: Leading the Industry to Accelerated Settlement*, Depository Trust & Clearing Corporation (DTCC) (Feb. 2021), <https://www.dtcc.com/-/media/Files/PDFs/White-Paper/DTCC-Accelerated-Settle-WP-2021.pdf>.

<sup>15</sup> *E.g.*, Comment From Andrew Affrunti (Feb 21, 2022), <https://www.sec.gov/comments/s7-05-22/s70522-20117358-268626.htm> (“Having [long] settlement cycles only provides opportunities to exploit and manipulate true price discovery.”); Comment From George Xanthopoulos (Mar. 4, 2022), <https://www.sec.gov/comments/s7-05-22/s70522-20118621-271496.htm> (“[The] proposed change will be an earth-moving event [toward] a fair and just system.”); Comment From Guy Rozen (Mar. 11, 2022), <https://www.sec.gov/comments/s7-05-22/s70522-20119205-272010.htm> (“When you give money immediately to buy something, you expect to get something immediately.”).

<sup>16</sup> [87 FR 10447](https://www.federalregister.gov/documents/2022/04/08/2022-07847); *see also* SIFMA’s T+1 Report, *supra* note 10, at 8.

## II. POTENTIAL COSTS ARE OUTWEIGHED BY MARKET BENEFITS.

There are several arguments against the adoption of the proposal, but they fall short. First, some point to the fact that a move to T+1 would very likely require expensive initial fixed costs to update systems and processes industry wide. And while the Commission recognizes it is difficult to produce “firm-level estimates” of these up-front costs,<sup>17</sup> leading industry sources have suggested such updates to systems and processes are likely to yield long-term operational cost savings after the initial transition to T+1.<sup>18</sup> By extension, these operational cost savings are likely to result in reduced costs borne by end investors.

Second, market participants may object to efforts to transition to T+1 if the Commission is likely to transition again to T+0 not long after.<sup>19</sup> The burden of expensive initial fixed costs may be less tolerable if the same fixed costs will just have to be paid again. However, SIFMA’s T+1 Report reports that its broker-dealer members believe an immediate jump to T+0 is too costly and too challenging, necessitating an intermediary transition to T+1, though a subsequent transition to T+0 remains plausible.<sup>20</sup> Therefore, though some market participants may complain about incurring transition costs twice, an initial transition to T+1 and a subsequent transition to T+0 are likely necessary to best balance costs and benefits in the long-term.

There are other costs beyond the scope of this comment. Overall, though there are certainly costs necessitated by a transition to T+1, the costs are largely offset by the market benefits mentioned in Section I.

## III. CONCLUSION

Beginning February 26, 2022, India began an official move from T+2 toward T+1 through a gradually phased-in plan.<sup>21</sup> While it is too early to say conclusively, experts expect this move will achieve net market benefits and, in a twenty-first century market, is an important step toward improved capital and operational efficiencies. Adoption of the SEC’s proposed rule would likewise be an important achievement.

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<sup>17</sup> [87 FR 10484](#). But some reports estimate the investment costs required of institutional and retail broker-dealers to be upwards of ten of million dollars. *E.g.*, *Cost Benefit Analysis of Shortening the Settlement Cycle* at 36, BOSTON CONSULTING GROUP (Oct. 2012), [https://www.dtcc.com/~media/Files/Downloads/WhitePapers/CBA\\_BCG\\_Shortening\\_the\\_Settlement\\_Cycle\\_October2012.pdf](https://www.dtcc.com/~media/Files/Downloads/WhitePapers/CBA_BCG_Shortening_the_Settlement_Cycle_October2012.pdf).

<sup>18</sup> SIFMA’s T+1 Report, *supra* note 10, at 9.

<sup>19</sup> As mentioned, *supra*, in note 2, the Commission has noted it is “actively assessing” same-day settlement. [87 FR 10465](#).

<sup>20</sup> SIFMA’s T+1 Report, *supra* note 10, at 10–12.

<sup>21</sup> Shubham Raj, *T+1 Settlement to Kick in From Feb. 25. What It Means For You and Market*, ECONOMIC TIMES (Feb. 23, 2022), <https://economictimes.indiatimes.com/markets/stocks/news/t1-settlement-to-kick-off-from-feb-25-what-it-means-for-you-and-market/articleshow/89771842.cms>.

The Clinic appreciates the opportunity to comment on the proposed shortening of the securities transaction settlement cycle and fully supports the proposed amendment to Rule 15c6-1 shortening the securities transaction settlement cycle to T+1.

Respectfully submitted,

*Birgitta Siegel, Esq*  
BIRGITTA SIEGEL, ESQ.  
ADJUNCT PROFESSOR OF LAW  
CORNELL SECURITIES LAW  
CLINIC

*Erik J. Oakley*  
ERIK OAKLEY  
CORNELL LAW SCHOOL, CLASS OF 2022

*Kendell Lee*  
KENDELL LEE  
CORNELL LAW SCHOOL, CLASS OF 2022

*Maria Kearns-Galeano*  
MARIA KEARNS-GALEANO  
CORNELL LAW SCHOOL, CLASS OF 2023